

VZCZCXRO0197  
PP RUEHPA  
DE RUEHOS #0103/01 0640707  
ZNY CCCCC ZZH  
P 050707Z MAR 09  
FM AMCONSUL LAGOS  
TO RUEHC/SECSTATE WASHDC PRIORITY 0562  
INFO RUEHZK/ECOWAS COLLECTIVE  
RUEHUJA/AMEMBASSY ABUJA 0180  
RUEHGB/AMEMBASSY BAGHDAD 0006  
RUEHSA/AMEMBASSY PRETORIA 1630  
RUFOADA/JAC MOLESWORTH AFB UK  
RUEKJCS/SECDEF WASHINGTON DC  
RUCPDOG/DEPT OF COMMERCE WASHDC  
RHEBAAA/DEPT OF ENERGY WASHINGTON DC  
RUEATRS/DEPT OF TREASURY WASHDC  
RUEAIIA/CIA WASHINGTON DC  
RHEFDIA/DIA WASHINGTON DC  
RHMFISS/HQ USAFRICOM STUTTGART GE

C O N F I D E N T I A L SECTION 01 OF 02 LAGOS 000103

SIPDIS

DOE FOR GPERSON, CHAYLOCK  
BAGHDAD FOR MCCULLOUGH

E.O. 12958: DECL: 03/03/2019

TAGS: [ENRG](#) [EPET](#) [PGOV](#) [EINV](#) [ELAB](#) [NI](#)

SUBJECT: NIGERIA TO DEREGULATE DOWNSTREAM, END GASOLINE  
PRICE CONTROLS

Classified By: Consul General Donna M. Blair for Reasons 1.4 (B,D)

11. (C) Summary: On February 26 Minister of State for Petroleum Resources Odein Ajumogobia announced at a conference on Nigeria's oil and gas sector that the GON plans to fully deregulate its downstream petroleum sector and end retail prices caps on gasoline and household kerosene. The Minister later explained to Mission officers that despite falling oil prices, the depreciation of the naira made continued fuel subsidies untenable and the GON hoped deregulation would spur investment in new and existing refineries, product pipelines, and storage facilities. Union reaction has been strongly negative and no timeline was announced for the deregulation. While a sound economic and fiscal policy, the removal of price controls will be felt most by Nigeria's poor, with unpredictable consequences to Nigerian stability. End Summary.

12. (SBU) On February 26 at the Nigeria Oil and Gas 2009 conference, Minister of State for Petroleum Resources Odein Ajumogobia startled the assembled audience by announcing the GON will fully deregulate the downstream petroleum sector and end a fuel subsidy regime that fixed the retail price of gasoline and household kerosene. Ajumogobia detailed the woeful state of the Nigerian downstream industry including dilapidated refineries, broken and incomplete pipeline distribution network and insufficient product storage capacity. In addition, at current prices and exchange rates, the GON estimated the 2009 fuel subsidy would reach naira 640 billion (USD 4.3 billion). He labeled the current state of affairs in the downstream as "unsustainable" and said the country simply had no choice but to open the sector to the free market. Along with ending the subsidy and price controls, Ajumogobia announced plans to sell of Nigeria's four state-owned refineries (Note: Former President Obasanjo did just that shortly before leaving office; the Yar'Adua administration reversed the sales. End Note.) and establish regulations that would permit third party access to terminals, storage depots, and pipelines. In a subsequent conversation with EconCouns on February 27, Ajumogobia reiterated his plans for downstream deregulation and said that despite falling oil prices the GON estimated it would face a higher bill for fuel imports in 2009 than in faced it 2008 because of the weaker naira.

13. (SBU) The labor union response was swift and negative. On

March 2, the two oil industry unions, PENGASSAN and NUPENG, said they would give the GON 21 days to reverse the decision or face possible strikes. The Nigeria Labor Congress announced an emergency meeting for March 11 to discuss the deregulation issue. The press reports that a meeting between the GON and labor unions scheduled for March 2 was called off by the GON. However, at least one small crack may have appeared in the labor front against deregulation. An experienced Nigerian energy journalist told Energyoff that Edo State governor Adams Oshiomhole told him he supported the deregulation and elimination of price controls. Before entering politics, Oshiomhole headed the Nigeria Labor Congress.

14. (C) O.B. Haffner, Corporate Affairs Manager for Total Downstream in Nigeria, told Energyoff on March 3, that after the announcement, the various downstream companies were called to several meetings with the junior and senior oil ministers and the Group Managing Director of the Nigerian National Petroleum Corporation (NNPC) Mohammed Barkindo to discuss the deregulation plan. Based on these conversations, his company believes the GON is fully committed to the plan and will not back down in the face of union pressure. Haffner expects further announcements on a more detailed plan within the next few weeks.

15. (C) Haffner said he too saw cracks in the labor union front, having also heard of Oshiomhole's support for deregulation. In general, Haffner was dismissive of the labor unions' expressed concerns for the impact of deregulation on its workers, saying the real reason the two

LAGOS 00000103 002 OF 002

oil unions are upset by deregulation is that they are controlled by powerful politicians and NNPC insiders who profit from the corruption that surrounds the downstream sector. (Note: In prior conversations, other downstream executives have remarked on NUPENG's involvement in fuel theft and gangsterism, noting that the union actually controls some of the fuel truck companies its members work for-companies thought to be heavily involved in fuel smuggling. End Note.). Haffner said Total fully supported the move as a way to end the downstream corruption which, he said, had become substantially worse in the past twelve to eighteen months.

16. (C) Comment: Besides being unpopular with the vast majority of Nigerians, this move directly confronts powerful special interests profiting from the status quo. Whether price deregulation happens or ends up in some sort of policy limbo, as is often the case in Nigeria, remains to be seen. In any case, we understand the numerous and solid economic arguments for deregulating gasoline prices, but believe it is important to come out of the theoretical and into the practical when looking at this issue. This will have a significant impact on the day to day lives of poor Nigerians. Costs for basic transportation may rise, costs for locally produced food may increase, and wood and charcoal may become even more attractive as cooking fuels, just to name a few possible results. Downstream subsidies, while giving rise to massive inefficiencies, occasional shortages, and immense corruption, have also largely shielded the poor from volatile swings in fuel prices. This move, economically and fiscally sound as it may be, will remove that shield with unpredictable consequences. End Comment.

17. (U) This cable cleared by Embassy Abuja.  
BLAIR